

UNITED STATES DISTRICT COURT
DISTRICT OF MINNESOTA

David A. Badhwa and Denise A. Badhwa,)	File No. 16-cv-2258
)	(PJS/DTS)
Plaintiffs,)	
v.)	
Veritec, Inc.,)	Courtroom 9E
)	Minneapolis, Minnesota
Defendant,)	September 10, 2018
)	3:00 p.m.
and)	
Veritec, Inc.,)	
)	
Counter-Plaintiff and)	
Third-Party Plaintiff,)	
v.)	
David A. Badhwa and Denise A. Badhwa,)	
)	
Counter-Defendants,)	
)	
and)	
JAB Companies, Inc., Acesse Corporation, ADXNET, Inc., ADX Labs L.L.C., A2Z Holdings, Inc, MobileSoft Technology, Inc., Mobile.net LLC, Steven Renner and Joseph Morris,)	
)	
Third-Party Defendants.)	

BEFORE THE HONORABLE DAVID T. SCHULTZ
UNITED STATES DISTRICT COURT MAGISTRATE JUDGE
(MOTIONS HEARING)

APPEARANCES

For the Plaintiffs and
Counter-Defendants
David A. Badhwa and
Denise A. Badhwa and
Third-Party Defendant
JAB Companies, Inc.:

FREDRIKSON & BYRON PA
BY: JOSEPH J. CASSIOPPI, ESQ.
200 South Sixth Street, #4000
Minneapolis, Minnesota 55402

For the Defendant,
Counter-Plaintiff and
Third-Party Plaintiff
Veritec, Inc.:

ROCK HUTCHINSON PLLP
BY: TROY J. HUTCHINSON, ESQ.
ERIC D. OLSON, ESQ.
120 South Sixth Street, #2050
Minneapolis, Minnesota 55402

For the Third-Party
Defendants, except not
Third-Party Defendant
JAB Companies, Inc.:

GRAY PLANT MOOTY MOOTY &
BENNETT PA
BY: LOREN L. HANSEN, ESQ.
80 South Eighth Street, #500
Minneapolis, Minnesota 55402

Court Reporter:

RENEE A. ROGGE, RMR-CRR
1005 United States Courthouse
300 South Fourth Street
Minneapolis, Minnesota 55415

Also Present:

Van Tran, CEO of Veritec, Inc.
Jon Hopeman, Esq., Gen. Counsel

Proceedings recorded by mechanical stenography;
transcript produced by computer.

P R O C E E D I N G S

IN OPEN COURT

THE COURT: Good afternoon, everyone. Please be seated.

All right. So we are on the record in the matter of Badhwa, et al, versus Veritec, Inc., et al., Case No. 18-cv-2258.

I guess third-party plaintiff's counsel, if you would note your appearances for the record, please.

MR. HUTCHINSON: Good afternoon, Your Honor. Troy Hutchinson on behalf of Veritec, Inc.

THE COURT: Good afternoon, Mr. Hutchinson.

MR. OLSON: Good afternoon, Your Honor. Eric Olson on behalf of Veritec, Inc., and with me today is Veritec CEO Van Tran.

THE COURT: Good afternoon, Ms. Tran and Mr. Olson.

And for the third-party defendants, please.

MR. HANSEN: Good afternoon, Your Honor. Loren Hansen. I represent the ADX-related entities. And with me today is Jon Hopeman, general counsel.

MR. CASSIOPPI: Good afternoon, Your Honor. Joe Cassioppi from Fredrikson & Byron. I represent the original plaintiffs here, David and Denise Badhwa, as well as

1 third-party defendant JAB Companies.

2 THE COURT: Okay. Very well.

3 Good afternoon, Mr. Hansen, Mr. Hopeman and
4 Mr. Cassioppi.

5 All right. Well, it's a little bit of an odd
6 procedural posture right now. Maybe Mr. Hutchinson or
7 Mr. Olson, whoever is going to argue, why don't you start
8 for a second. So come on up.

9 I have first sort of an observation that leads to
10 a question, which is just to give you background on how this
11 all got started. Obviously, we review complaints whenever
12 they come in to spot if there are any jurisdictional issues
13 or not, and this one I happened to spot, otherwise Judge
14 Schiltz upstairs always does the same thing. And so when I
15 ask for people to tell us what the jurisdictional basis was,
16 I got the two briefs, which struck me as pretty clearly
17 saying one party is saying it's got to get remanded to state
18 court -- you guys saying that, I believe -- and the other
19 side saying not. But I also noticed in your filing then
20 that you have got a statement that, to the effect, that
21 regardless of today's hearing you also have a motion to
22 remand or will file a motion to remand. So I want to make
23 sure if that's the case, what the reason for that is,
24 because I can tell you that Judge Schiltz believes this to
25 be a motion to remand that he's referred to me, but if

1 there's a reason for it or a different standard or whatever
2 it is.

3 MR. HUTCHINSON: Sure. Your Honor, we're on the
4 same page.

5 THE COURT: Okay.

6 MR. HUTCHINSON: I think that reference was prior
7 to Judge Schiltz referring the motion to you. I mean,
8 obviously, a motion to remand is deemed dispositive. So we
9 had initially calendared a hearing date with Judge Schiltz,
10 and there would have been a briefing schedule keyed off of
11 that hearing date, but we don't need to do that at this
12 point.

13 THE COURT: Okay. Good. So the next question or
14 the next observation I have is it's not entirely clear to
15 me, and I am not going to pretend that I'm a maven of the
16 Rules of Civil Procedure, but under Rule 14, I guess it
17 would be the state rule, at least to begin, is this a proper
18 third-party complaint? Let's start there, if we could.

19 MR. HUTCHINSON: We believe it is, yes, Your
20 Honor.

21 THE COURT: Because the text to the rule
22 specifically says, in essence, if you are sued by a
23 plaintiff, you can bring a third-party complaint against
24 somebody who, if you owe the plaintiff, owes you. That's
25 obviously a drastic paraphrase, but that, in essence, is the

1 way I read the rule.

2 And then there's also a reference then that if
3 there are other claims against a third party, those would be
4 properly -- they would properly be brought in pursuant to
5 Rule 19 or Rule 20.

6 So the first question is, Am I right, Am I wrong,
7 Does it matter.

8 MR. HUTCHINSON: Well, whether we filed the
9 third-party complaint pursuant to Rule 14 or whether it
10 would be a joinder under Rule 19 or 20, I am not sure if it
11 matters. I mean, I had planned on giving the court a little
12 bit of background to start out with, but I think
13 Mr. Badhwa's initial claim and the counterclaims that
14 Veritec has against Mr. Badhwa relate to the same nucleus of
15 facts that give rise to these third-party complaints. So I
16 am not sure if it matters. I would note, you know, we filed
17 one, sort of, omnibus pleading that is both a counterclaim
18 and then a third-party claim against Mr. Renner and his
19 entities.

20 THE COURT: Okay. Go ahead then.

21 MR. HUTCHINSON: Okay. Well, just to give the
22 court a little bit of background on what we're talking about
23 here, Veritec's business -- and there's other aspects to its
24 business. They have been around since the '80s, but the
25 business that's at issue in this case involves mobile

1 payment technology. Veritec built a software platform for
2 mobile payment applications, and these applications allow
3 users to pay for things at merchants and to use a smartphone
4 as a payment device and also to allow people to make
5 payments to other individuals. Veritec also customized its
6 own smartphone that would come preloaded with those
7 applications on it.

8 And in 2016 Veritec was looking to grow this
9 mobile payment business and was looking for funding, and its
10 attorney at the time introduced Veritec to Mr. Renner.
11 Veritec's founder, Ms. Van Tran, then met with Mr. Renner
12 for the purpose of exploring an equity fundraising
13 transaction. At that time Mr. Renner didn't have a mobile
14 payment platform or application and he didn't -- he wasn't
15 selling a smartphone, and Mr. Renner expressed interest in
16 investing in Veritec. And, notably, the attorney who made
17 this introduction is now Mr. Renner's CEO.

18 So pursuant to this introduction, Mr. Renner
19 signed a confidentiality agreement with Veritec, which also
20 included an agreement not to compete with Veritec. Under
21 the protections of that agreement, Ms. Tran introduced
22 Mr. Renner to the key people, her key partners that she was
23 building this mobile payment business with. Those include
24 Mr. David Badhwa, Veritec's business partner, who is a
25 software engineer by trade. Mr. Badhwa and Veritec had a

1 contractual relationship. Ms. Tran also introduced
2 Mr. Renner to Veritec's lead software engineer,
3 Mr. Yoshihide Shimada.

4 In addition, Mr. Renner conducted extensive due
5 diligence of Veritec's business model under the protections
6 of that confidentiality agreement and was given access to
7 essentially everything in the company, including financial
8 records. Veritec also significantly disclosed to Mr. Renner
9 its distribution plans and disclosed that Mr. Badhwa was the
10 key player in that and it was Mr. Badhwa who was charged
11 with finding these sales channels.

12 Ultimately, Mr. Renner, after conducting this
13 extensive due diligence, put forth a formal proposal via
14 email to Veritec offering to invest \$5 million in exchange
15 for 52 percent of the company. Veritec ultimately declined
16 that offer, and no deal was made at that time.

17 Now, following all of this and following the
18 extensive due diligence, Mr. Renner -- and I use Mr. Renner
19 to describe both him and his various entities -- developed
20 and brought to market strikingly similar products, including
21 both a mobile payment application and an associated
22 smartphone. Now, this is clearly a breach of the noncompete
23 agreement that Mr. Renner signed with Veritec.

24 And Mr. Renner did not, however, create this
25 competing business alone. He had help, and that help came

1 from Mr. Badhwa, who Mr. Renner took to work for him, and
2 Mr. Shimada, as well as Veritec's former attorney. And this
3 was all done under cover of darkness without Ms. Tran's
4 knowledge.

5 Most startling, Mr. Renner's smartphone is
6 actually made in the very same factory in Asia that
7 Veritec's phone was made in. And it's Mr. Badhwa who had --
8 or Mr. Shimada, rather, who found that factory for Veritec.

9 So, in short, after signing a confidentiality
10 agreement and it contained an agreement not to compete and
11 engaging in significant due diligence, instead of following
12 through on a transaction to invest in Veritec, Mr. Renner
13 stole Veritec's business, hired its key people, used its
14 contacts, used its factory and its distribution plans and
15 created a competing business for zero dollars, rather than
16 the 5 million that he had offered to invest in exchange for
17 52 percent.

18 These facts are what this case is about. This is
19 essentially a breach of contract case involving some related
20 tort actions that stem out of the contracts at issue. There
21 are no allegations of copyright infringement. There are no
22 allegations of patent infringement. It's true that Veritec
23 owns copyrights and patents, but there is no allegation that
24 the defendants have infringed any of those. And none of
25 Veritec's claims require resolution of questions of

1 copyright or patent law.

2 The initial complaint did allege that discovery
3 may reveal evidence of infringement. And that pleading has
4 two implications. One is it is saying right now there is no
5 evidence of infringement, there is no Rule 11 basis to bring
6 a claim of infringement; and, two, if discovery may reveal
7 evidence of infringement, the implication is that it may
8 not. And since we filed that initial complaint, we have
9 amended and removed those allegations. And that comes after
10 several meetings with opposing counsel and Mr. Renner, where
11 they have made clear that there is no infringement and
12 Veritec in turn has made clear that, you know, we are not
13 bringing a claim for copyright or patent infringement.

14 Mr. Renner also -- he relies on the case of *3M*
15 *versus Avery Dennison* to argue that Veritec's reference to
16 discovery perhaps revealing evidence of infringement, to
17 argue that there is an actual case or controversy here, but
18 that *3M* case is very different. And there the court found
19 that *3M* was justified in proactively filing declaratory
20 judgment claims, because the court noted that there was a
21 legitimate fear that Avery Dennison might escalate the
22 dispute and file infringement claims, and the court based
23 that on a number of factors beyond just the reference that
24 there may be infringement. And, notably, *3M* and Avery
25 Dennison had been engaged in prior patent litigation.

1 But, more significantly, after counsel for Avery
2 Dennison said that 3M may be infringing, counsel for the two
3 parties met, 3M said we are not infringing and Avery
4 Dennison then escalated things. They said, well, we are
5 going to send you a claim chart. So the court found that
6 that remark, that threat to send a claim chart, escalated
7 the dispute and that created a real legitimate fear for 3M
8 that there was going to be a filing that was going to be
9 forthcoming.

10 THE COURT: Hang on a second. When you say in the
11 initial complaint -- I could have sworn I saw it again in
12 the amended complaint, but I don't see it there now. But in
13 the initial complaint when you say discovery may reveal
14 evidence of an infringement, to me that sounds like a pretty
15 clear threat that, A, we're going to look for or at least
16 we're going to have our eyes open for evidence of potential
17 infringement, from which it follows and if we find it we're
18 going to do something about it. So why isn't that enough of
19 an actual case or controversy and an imminent threat?

20 MR. HUTCHINSON: Well, because we didn't make a
21 threat. We said discovery may show it, and it may. And
22 that's true, you know, Your Honor, that would be true in any
23 noncompete case where an employer hired somebody's engineer
24 or a scientist that had access to patents and copyrights.
25 There is always a threat that there would be infringement

1 that would follow.

2 Here, the key facts that make our case different
3 from *Avery Dennison* is that here Veritec actually filed a
4 lawsuit. In *Avery Dennison* the court was concerned -- and
5 dec j actions in patent cases also often come where there's
6 been a threat of litigation, but there's no litigation
7 pending. And that was true in *Avery Dennison*. Here, there
8 wasn't a threat. We filed a lawsuit, but it didn't contain
9 any allegations of infringement, so there was no real threat
10 here presented by Veritec that a patent infringement action
11 was going to follow. And, in fact, in a verified pleading
12 Veritec actually said we don't have any evidence of
13 infringement, discovery may reveal that there is.

14 But here really what the pleading was about
15 initially was, you know, explaining to the reader of the
16 complaint that we are dealing with a real business here,
17 that they do have patents, they do have copyrights, they had
18 a valuable business they were protecting, but we don't have
19 any evidence of infringement. We didn't bring claims of
20 infringement. We have never threatened to bring claims of
21 infringement.

22 So that's what makes this case markedly different
23 than *Avery Dennison*, but beyond that, Your Honor, that was
24 the initial complaint. We have amended the complaint.
25 There is no more reference to what discovery may or may not

1 reveal, because in our discussions with Mr. Renner's counsel
2 they have convinced us that there is no infringement. In
3 fact, they have said that the patents -- there is no patent
4 for the smartphone and that any patents that existed either
5 lapsed or have been assigned to somebody else. They have
6 also said in their pleadings before this court that there's
7 no copyright covering the software at issue. So, you know,
8 we don't have any facts that would be contrary to their
9 assertions. But more importantly --

10 THE COURT: But their assertions are largely
11 irrelevant to the question -- because the potential
12 defendant always says there's no patents, there's no
13 infringement; if there are patents or copyrights, yeah, they
14 are not valid. So the fact that they say, yeah, you are not
15 infringing or we're not infringing doesn't really control, I
16 don't think, the question of whether there's a controversy,
17 because the controversy is governed by what you say, not
18 what they say.

19 MR. HUTCHINSON: Right. And the only thing that
20 Veritec has said is, well, which was quite a while ago --

21 THE COURT: Which was taken out.

22 MR. HUTCHINSON: -- and it's been removed now --
23 and, you know, in this district Judge Kyle in *Uncommon*
24 *versus Wiese*, a case in which the plaintiff expressly filed
25 patent infringement claims in state court, the defendant

1 then removed, plaintiff then amended the complaint, removed
2 the patent infringement claims and left only a state court
3 breach of contract claim, and Judge Kyle held in that case,
4 and he just focused on -- the court just focused on the
5 amended pleading, that there was no patent issue and no
6 jurisdiction. And that's in a case where there wasn't --
7 there weren't threats. There was an actual filing of a
8 patent claim. And so, you know, here we -- the initial
9 complaint -- we didn't bring a claim for patent
10 infringement. So, you know, I think, based on Judge Kyle's
11 holding in *Uncommon versus Wiese*, I think the focus should
12 be on the amended complaint. But I guess my point is, Your
13 Honor, even if we look at that initial complaint, you know,
14 it only says what discovery may reveal.

15 THE COURT: I think there's a little bit of maybe
16 a blending of two issues or maybe I am not understanding it.
17 The question of whether they can -- they have a basis for
18 seeking declaratory judgment really, that really is governed
19 by whether there's an immediate threat of -- is there a real
20 case or controversy and is it an immediate threat. I may be
21 wrong, but I think the *Uncommon* case didn't have a dec
22 action, did it? I don't think it did, because I think what
23 that was dealing with was on the question of remand of a
24 removed case the court is to look to the amended complaint,
25 but we have a slightly different situation here. We have an

1 amended complaint, but we also have an answer that -- or a
2 third-party answer that says dec action. And then the
3 question becomes, well, if they have a dec action and it is
4 proper, is that a sufficient grounds for removal. So it's
5 slightly different.

6 MR. HUTCHINSON: You are correct, Your Honor.
7 Those are slightly different issues. I think my point is
8 that, you know, in the *Uncommon versus Wiese* case, you know,
9 you have an instance where somebody has actually brought a
10 patent claim.

11 Again, saying discovery may reveal something does
12 not create a real case or controversy. I mean, we have --
13 it would significantly change this case to bring in patent
14 and copyright issues that just are not in dispute. I mean,
15 they have denied infringement, but we have never accused
16 them of infringement, and we are saying we don't have any
17 evidence that you infringed anything. So, I mean, I guess,
18 Your Honor, that the policy argument is, is that in any case
19 where there's a breach of an NDA or a noncompete case, where
20 there's the potential for infringing of patents and
21 trademarks, I mean, we're not going to say that there's
22 federal jurisdiction over all of those claims.

23 And I think, you know, the *Uroplasty versus*
24 *Advanced Uroscience* case that we cite in our brief is
25 illustrative of the problem that can be created here. In

1 that case, the case was before Judge Davis here in this
2 district and it proceeded all the way through summary
3 judgment on these patent issues. Ultimately, the case goes
4 up to the federal circuit. The federal circuit says, well,
5 there's no patent case or controversy, so they remand back
6 to the district court with instructions to dismiss for lack
7 of jurisdiction. That's after the case went all the way
8 through summary judgment in federal court. So, you know,
9 there's an issue here of unnecessarily multiplying the
10 proceedings here by involving issues and claims that are
11 just not in dispute.

12 And, you know, that *Uroplasty* case stands for the
13 proposition that references to patents and copyrights in a
14 complaint do not give rise to preemption. In that case
15 there was a former employer who sued a new employer for
16 trade secret misappropriation, kind of similar situations
17 where we have Veritec being the former employer of Badhwa
18 and Shimada, who both of whom now work for Mr. Renner's
19 companies.

20 In *Uroplasty* the plaintiff alleged explicitly in
21 its complaint that the former employer used its trade
22 secrets to prepare and file a patent, and it was reference
23 to a specific patent and specific products that they are
24 alleging were infringing. And the court held, nonetheless,
25 that that '406 patent that was at issue may be evidence to

1 support a plaintiff's allegations of trade secret
2 misappropriation, but the mere presence of patents do not
3 create a substantial issue of patent law. And the court
4 went on to explain that plaintiff's claims can be proven
5 without requiring any resolution of patent law. And that's
6 the same with Veritec's claims here.

7 THE COURT: Okay.

8 MR. HUTCHINSON: And, Your Honor, just briefly, I
9 mean, on this argument of artful pleading, my initial
10 comment is if there was any intention by Veritec to try to
11 plead around federal jurisdiction initially, we certainly
12 wouldn't referenced patents and copyrights in the complaint.

13 THE COURT: Well, that would make an inartful
14 pleading.

15 MR. HUTCHINSON: Well, it certainly wasn't the
16 intent, but the cases that Mr. Renner relies on all involve
17 instances where you have a plaintiff that is taking patent
18 or trademark claims and just dressing them up in the
19 clothing of state law claims.

20 So, for example, in the Western District of
21 Pennsylvania case of *Husing versus Auction 123*, that case
22 involved competing internet sites that sell cars. And the
23 plaintiff filed a copyright infringement action in state
24 court. Defendant removed. Plaintiff then amends the
25 complaint using the same allegations that the defendant is

1 using its copyrighted photos of cars, but calls it a
2 conversion claim. That's not what we have here. You know,
3 I am happy to go through each of our claims and talk about
4 the different proof that we will be using in our claims
5 versus what is at issue in a copyright claim, but none of
6 Veritec's claims involve allegations of copying copyrights
7 or publication of copyrighted material.

8 Another one of the cases --

9 THE COURT: Let me just stop you for a second. In
10 your initial complaint -- now, I grant you I am obviously
11 going to ask them if they agree with you about which
12 complaint governs the question of remand, but in your
13 initial complaint you said a couple of things that I think
14 can't quite be so easily dismissed. So I would like you to
15 address those directly. Okay?

16 Paragraph 106, Mr. Badhwa utilized Veritec's
17 patented and copyrighted source code to develop similar and
18 competing products. Now, I can understand that using the
19 patented side of that, that's not necessarily an
20 infringement because it could be a design-around, but use of
21 the copyrighted source code to develop similar and competing
22 products sounds an awful lot like a derivative work. So
23 let's address that one first.

24 MR. HUTCHINSON: Right, and it's not. What we are
25 saying is that Mr. Renner brought in Mr. Shimada who

1 developed the source code. They didn't -- we are not
2 alleging that they copied that source code, but the
3 architecture of these applications, the know-how of how to
4 put this all together resided in Mr. Shimada's head, and he
5 didn't have to copy the source code. He didn't have to use
6 that, but he had that, and it's using Mr. Shimada and the
7 architecture of putting this application together. They
8 never had to show Mr. Renner the source code to do that.

9 And, again, this is almost, you know, that
10 allegation, Your Honor, is almost identical to the
11 allegation in the *Uroplasty* case. I mean, there, and this
12 is -- I quote the federal circuit, quote, the '406 patent
13 may be evidence in support of plaintiff's allegations. And
14 there you had, you had -- the allegation was that they had
15 used the patent -- the trade secrets to file this patent.

16 So, you know, it's very similar to the allegation
17 there, but we are not accusing them. And if Your Honor
18 looks at, you know, to have a claim of copyright
19 infringement, that focuses on the copying or the
20 distribution or the publication of that copyrighted work.
21 We're not saying that they have used or copied, that they
22 published or disseminated or distributed or publicized our
23 source code. We are not accusing them of infringement, you
24 know, and this isn't a derivative work. So we're -- we
25 haven't -- even in that initial complaint, we are not

1 alleging that they infringed the copyright.

2 THE COURT: Paragraph 109 says aPay and aPhone are
3 substantially and illegally derived from...copyrighted
4 source code. Same answer?

5 MR. HUTCHINSON: Same answer, Your Honor. We are
6 not saying that -- and even based on what we know now, which
7 is different than when we filed this initial complaint, I
8 think even at that time we are not accusing them of
9 infringing the patent or the copyright, but the aPhone is,
10 nonetheless, illegally derived from our technology because
11 the people who put that technology to work went and worked
12 for -- and they work for Mr. Renner now, in breach of both
13 our agreements with Mr. Renner and in breach of our
14 agreements with the two individuals, Mr. Badhwa and
15 Mr. Shimada.

16 THE COURT: Paragraph 140 says -- and again,
17 obviously, I am not quoting. I am using ellipsis here. But
18 the aPay and aPhone are based on the misappropriated source
19 code. So, again, now that seems -- it seems like 106 then
20 109 then 140 get progressively closer, at least, to the
21 allegation that this is copyright infringement. So what's
22 the response? Now it is saying that the source code has
23 been misappropriated and the offending technologies are
24 based on that misappropriated source code.

25 MR. HUTCHINSON: So, again, copyright infringement

1 requires that there be some publication or use of a
2 copyright.

3 THE COURT: Well, that's the use, right? They
4 misappropriated the source code to use in their phone.

5 MR. HUTCHINSON: Well, not to use, no, not to use
6 in their phone, but to understand the architecture of how
7 Veritec products work, so then that we can go create our own
8 competing business that's not -- we are going to be careful
9 not to infringe or use their source code, but now we know
10 how theirs works. We are going to make a similar product,
11 but -- that is going to be based on the sharing and the
12 disclosure, but that's different than saying that they're
13 actually using it.

14 THE COURT: Yeah, I understand that difference
15 that you are articulating, but -- and maybe this doesn't
16 matter, but at least as initially drafted one could read
17 that as at least ambiguous as to whether you are alleging an
18 infringement or not. Would you agree with that? I mean,
19 now you are saying no, no, they are not using the
20 copyrighted material to derive a second copy and use it in
21 our phone. You are now saying what they really did is they
22 picked the brain of one person so that they wouldn't have to
23 reconfigure or reinvent how to do the architecture. I
24 understand that, or I think I understand that distinction.
25 But the original complaint certainly didn't make that

1 distinction, did it?

2 MR. HUTCHINSON: Well, in the totality, Your
3 Honor, there is no objectively reasonable way to view this
4 complaint as alleging infringement. There's paragraphs in
5 this complaint that expressly state that discovery may
6 reveal evidence of infringement. Then there's no actual
7 affirmative allegation of infringement or use, direct use of
8 a copyright. So, you know, Your Honor, I do not believe
9 that paragraph 140 taken alone says infringement, but
10 certainly, you know, one has to read the entire complaint.
11 And as a complete pleading, the complaint is very clear that
12 there is no allegation in infringement, and there is
13 actually an admission that there isn't any evidence yet of
14 infringement. And, you know, from what we now know we don't
15 believe that there is infringement. We don't believe that
16 discovery will yield that. And we think it will be
17 excessively burdensome on Veritec to turn this breach of
18 contract claim against Mr. Renner into a federal patent
19 dispute.

20 But, again, on the issue of preemption, all of the
21 cases that they cite really involve claims of infringement
22 that are just relabeled as state law claims. That's true in
23 the *Stelly* case that they cite. That was -- that case
24 involved the actual use of drawings for tools.

25 In the *Panizza versus Mattel* case, that case

1 involved a plaintiff who settled copyright claims and then
2 later brought a claim for unjust enrichment. That was based
3 on the same allegations as their previous copyright claim,
4 and that was for the alleged theft of a TV show idea.

5 The *Harper & Row versus Nation Enterprises* case,
6 that was a dispute between two publishers who one accused of
7 publishing the portions of President Ford's memoirs related
8 to Watergate and his pardoning of President Nixon. So that
9 case bears no resemblance to the claims that Mr. Renner
10 breached his contract and misappropriated Veritec's
11 business. Again, Veritec does not allege that Mr. Renner
12 published or used any copyrighted materials.

13 So, Your Honor, I think this is a case that
14 belongs in state court. And there are no patent disputes.
15 There is no copyright disputes. We have made that clear in
16 the amended complaint. To the extent there was any
17 confusion, we don't believe there was. I understand the
18 paragraphs that the court has pointed out, but we would
19 respectfully ask that the court would remand this back to
20 state court.

21 THE COURT: Okay. Thank you.

22 Mr. Hansen.

23 MR. HANSEN: Good afternoon.

24 THE COURT: Good afternoon. Quick question for
25 you. Do you agree with Mr. Hutchinson that for purposes of

1 this question, the remand, the operative complaint is now
2 the amended complaint? And if you don't agree with that,
3 why not?

4 MR. HANSEN: Your Honor, I don't agree with that.
5 I believe that the jurisdictional question is done at the
6 time of the original filing or the original remand, so I
7 believe that original complaint. And the *Jim Arnold* case,
8 which is actually cited by them, stands for that
9 proposition.

10 But I think more importantly here, and Your Honor
11 touched on this earlier today, we have a declaratory
12 judgment claim for noninfringement and invalidity of the
13 patents and the copyrights and that drastically changes
14 things in terms of the federal question here.

15 So as I can tell Your Honor certainly has read all
16 the papers, and I thought that we spelled out the issues
17 quite clearly there, but there are two reasons why we can
18 have federal jurisdiction here. The first and I think the
19 most straightforward one, which hasn't gone away with
20 anything that counsel now argued or that they have put in
21 writing to us in the past, is they have alleged
22 infringement. When we asked them to say, well, okay, we
23 withdraw that or we will say you don't infringe, the
24 response was, well, we are not aware of anything.

25 Their original complaint clearly states that

1 discovery may reveal infringement of copyrights or
2 infringement of patents, and under the *3M* case that is
3 enough for declaratory jurisdiction. But as Your Honor just
4 went through with counsel, those "may infringe" paragraphs
5 aren't even the biggest ones in my mind. The biggest ones
6 are 106 and 109. They say that they utilized -- that we
7 utilized patented and copyrighted technology. Use is
8 infringement under 35 U.S.C. 271(a). Use is infringement of
9 a copyright under 17 U.S.C. Section 106(1). And then later
10 in Section 109 -- excuse me -- in paragraph 109 of the
11 original complaint, they say that we substantially derived
12 technology from copyrighted work. Well, derivative works
13 under 17 U.S.C. 101(2) are the exclusive right of copyright
14 owner. And so I don't understand how, you know, Veritec can
15 argue that they haven't alleged infringement or that they
16 are not saying that there is infringement when they have a
17 verified complaint out there expressing infringement.

18 And what compounds all of this is, as we include
19 in our materials, we asked for clarity on this point. Are
20 you saying do we not infringe or are you saying we are not
21 aware of infringement? And counsel's response has always
22 been, well, we are just not aware of anything right now.

23 THE COURT: If they had said you don't infringe,
24 would that take care of it then?

25 MR. HANSEN: If they clearly had a covenant not to

1 sue, which they can unilaterally create, if they clearly say
2 that any product that's currently in existence does not
3 infringe any patent or any copyright that Veritec owns, if
4 they said that, that would divest federal jurisdiction under
5 the declaratory judgment claims. That would mean there
6 aren't expressly patent or copyright infringement claims.
7 There is still the preemption issue.

8 I see Your Honor has a question.

9 THE COURT: Yeah, there is still a preemption
10 issue. But do you hear Mr. Hutchinson's statements today as
11 being different from statements in the past of we're not
12 aware? It sounded a little bit different to me.

13 MR. HANSEN: I would agree with you that at times
14 it sounded closer to there is no infringement or that we
15 aren't sure or that we don't believe there is infringement
16 today, but it did seem equivocal, particularly when he
17 returned back to the idea that saying in paragraphs I
18 believe it's 40 -- or 42 and 45 that there may be
19 infringement. In his -- the way I understood him was that
20 is evidence that we're saying there isn't infringement. To
21 me that is saying you are suggesting there might be. And I
22 didn't hear anything that was a direct, clear disavowal of
23 patent and copyright infringement that would satisfy a
24 covenant not to sue that would divest this court of
25 jurisdiction.

1 THE COURT: Okay. So let me ask you a different
2 question. I have read the cases. Tell me this first. Am I
3 correct that there is no Eighth Circuit decision applying
4 the express preemption as opposed to the defensive
5 preemption doctrine to copyright and patent actions? Am I
6 right about that?

7 MR. HANSEN: I believe that's correct, Your Honor.

8 THE COURT: Okay. And then we have the express
9 preemption cases that exist from other circuits applying it
10 to patents and copyrights, but, in essence, for lack of a
11 better way of putting it, we're being asked -- and I say
12 "we," because I have a funny feeling that no matter where I
13 go everybody is going to go up to the 14th floor after
14 this -- we're being asked to figure out what we think either
15 the Eighth Circuit would do or maybe in some way what the
16 Eighth Circuit should do. Right?

17 MR. HANSEN: I believe that's right, Your Honor.

18 THE COURT: Okay. So why, given -- well, why
19 should we extend that doctrine? Why should we apply the
20 express preemption doctrine in this context, even assuming
21 the complaint would fall within that rule, if it were
22 applied?

23 MR. HANSEN: Well, Your Honor, I believe that it's
24 quite simply the better rule. I think that when there are
25 questions, particularly around intellectual property that is

1 governed by federal statute, the courts and decision makers
2 best equipped to deal with that are the federal judiciary.
3 And that's what Congress has expressly stated when it made
4 patents and copyrights exclusive federal jurisdiction.

5 So when you have state law claims that are simply
6 dressed up or maybe dressed down is the right word, but they
7 are patent or copyright infringement by another name, I
8 think you might have courts that are unfamiliar with those
9 concepts and might -- you know, I certainly have a lot of
10 respect for our state court judges here, but they don't see
11 patent issues every day. They don't have an understanding,
12 you know, that the federal bench does in terms of the claims
13 govern what is patented. And, you know, so if you have a
14 breach of contract claim, but the allegation is really, you
15 know, they gave away patented technology, there necessarily
16 has to be an analysis then of the patent claims. And I
17 think for courts like state courts that aren't used to
18 understanding what is or is not patent infringement or how
19 you go about proving it, you could have some decisions that
20 really don't mesh with what would happen in federal court
21 and that is a disservice, you know, for defendants in those
22 cases.

23 THE COURT: Okay. Keep going.

24 MR. HANSEN: Sure. As I started, Your Honor,
25 Veritec has refused to issue a covenant not to sue. And

1 while I do believe that that verified initial complaint
2 creates the declaratory judgment jurisdiction, the amended
3 complaint really doesn't take away any of our concerns.

4 If you look at the red line between the first
5 complaint and the amended complaint, all that's really
6 happened in there is they have removed the words "patent"
7 and "copyright," but it's underlyingly still true that they
8 are alleging that the basis for some of these state law
9 claims are intellectual property or source code. Instead of
10 saying patents and copyrighted source code, they just say
11 intellectual property or source code. These are in the
12 amended complaint, which is at the Docket 20, paragraphs 42,
13 45, 47, and now the old 106 is now paragraph 110 and the old
14 109 is now 113. And it is still alleging intellectual
15 property -- or not infringement, but use of intellectual
16 property in violation of various agreements, and again that
17 use is really patent infringement or copyright infringement.

18 THE COURT: Go ahead. Keep going.

19 MR. HANSEN: I was going to say, you know, counsel
20 touched on the *Uroplasty* case and tried to make an analogy
21 there. There the underlying action was for trade secret
22 misappropriation, and the allegation there was that the
23 defendant took trade secret information and converted it
24 into a patent. So there wasn't an allegation that some
25 patent infringement occurred, that they were using patented

1 technology. It was that they had stolen information and
2 then converted it into a patent. That's much different than
3 here where they are saying the aPhone and aPay actually
4 utilized patented technology or that it's derived from
5 copyrighted source code. So I don't think the *Uroplasty*
6 case is really on point. Neither too is, you know, the
7 *Uncommon case v. Wiese*. As Your Honor pointed out, there
8 wasn't -- or there wasn't a declaratory judgment action at
9 issue there.

10 Your Honor, I think you understand the cases and
11 certainly the fact pattern here. The last thing I would
12 close with is, you know, counsel certainly set forth a
13 rendition of their version of the facts. We obviously very
14 much disagree with them. They have different products and
15 those kinds of things, but the real issues here are federal
16 questions. There are federal questions here both under the
17 declaratory judgment context and under preemption, and we
18 would ask that this case remain in state court.

19 THE COURT: Let me ask you a couple quick
20 follow-ups to that. If you have a viable or proper
21 declaratory judgment action -- I haven't looked closely at
22 this, but can you really create -- if that's the only thing
23 that would be a federal question, can you really create the
24 jurisdiction by the defendant's pleading?

25 MR. HANSEN: Yes, Your Honor. Unfortunately, I

1 don't have that case on total recall, but it is cited in the
2 section of our brief that deals with this. I think the
3 alternative that I suppose the court could entertain, and I
4 hope it does not decide to do this, is we could have two
5 proceedings.

6 THE COURT: Right.

7 MR. HANSEN: We could have a declaratory judgment
8 proceeding here in federal court while there is a state
9 court related proceeding.

10 THE COURT: Right. Okay. All right. The last
11 thing. Do you agree with Mr. Hutchinson, setting aside the
12 declaratory judgment jurisdiction -- it looks to me like the
13 allegations certainly in the amended complaint are more
14 precisely pleaded in the sense of, for example, the new --
15 the new 109 says Mr. Renner used confidential and trade
16 secret knowledge possessed by Mr. Shimada, in addition to
17 the confidential and other trade secret information held by
18 Mr. Badhwa in the development process. That doesn't
19 necessarily implicate patents or copyrights, correct?

20 MR. HANSEN: I believe that on its face that is
21 correct, but you have to look at this with the lens of what
22 hasn't been disavowed or what the original complaint was and
23 those terms certainly before included copyright and patented
24 technology.

25 The other thing I will say here is while

1 certainly, you know, there's the *Iqbal/Twombly* standard of
2 pleading here in federal court, you know, the complaints
3 themselves are still general averments. And when I look at
4 the new paragraph 109, which is now 113, it says trade
5 secret and confidential information, which, again, we know
6 they think is covered by patents and copyrights, but it also
7 says and technology developed by Veritec. And when I think
8 about that, I think about discovery requests that we're
9 going to get and I think about all the different ways in
10 which they are going to try to allege, you know, or prove up
11 their case or find facts to prove their case and I think
12 that those will include questions about patents and
13 copyrights.

14 THE COURT: Well, and I think obviously they
15 wouldn't disagree with that. They are saying pretty clearly
16 right now that what was developed by Mr. Renner, it was a
17 violation of the -- Mr. Hutchinson said noncompete.
18 Certainly, the confidentiality agreement is their
19 allegation. It was a user patient of a business
20 opportunity. All of that are recognized state law claims,
21 wouldn't necessarily depend upon a use of copyrighted
22 material or an infringement of patented technology. All of
23 that would seem to be true.

24 So let's say I agree with them and the case is,
25 and Judge Schiltz agrees with me, and the case is remanded

1 to state court. We're a year down the road and, you know,
2 you're at summary judgment or whatever and you say this is
3 the scope of their claim and now all of a sudden they say,
4 well, it probably violated copyrights and patents too. In
5 that procedural posture, can it be removed at that time or
6 does the time period simply cut you off? Do you follow what
7 I am saying?

8 MR. HANSEN: I do follow what you are saying.
9 And, Your Honor, I have not thought much about that
10 particular jurisdictional question.

11 THE COURT: Neither have I.

12 MR. HANSEN: And I don't want to guess on
13 something like that.

14 One of the points I will make here, though, is,
15 again, they have said their trade secret information is part
16 of the misappropriation, but they also, I believe, have
17 alleged that that same trade secret information is patented
18 and copyrighted. That in and of itself would be a defense
19 to trade secret misappropriation, is that this is in fact
20 covered by their patents. So that's another way in which
21 the patent laws are going to have to be used to evaluate
22 their trade secret claim in light of their pleading.

23 And I think under *Gunn v. Minton*, the U.S. Supreme
24 Court case that Veritec has cited, you know, there that was
25 about an attorney committing malpractice; but here when you

1 talk about whether there is a substantial federal question
2 or not, there really is an important federal issue in terms
3 of what is trade secrets and what is patented, especially
4 now that, you know, we have an expanded defendant trade
5 secret acts case. I think that it will be important for the
6 federal courts to start addressing issues of overlap in
7 these trade secret or patent cases. And, again, I think
8 it's best for a federal court to decide whether in fact this
9 patent does cover trade secret technology and therefore
10 because a patent is public there is no trade secret. So I
11 don't think merely pleading out patent or copyright issues
12 makes these preemption questions go away.

13 THE COURT: Well, in that last hypothetical, if
14 the claim -- you are standing at trial in Hennepin County
15 District Court and the claim is they misappropriated trade
16 secrets and you hold up a patent and say it's right there
17 either in the claims or it's right there in the body of the
18 patent, isn't that just a straightforward defense to trade
19 secret? It can't be secret; it's right here. And it
20 doesn't -- doesn't require an elaborate knowledge or
21 application of patent law.

22 MR. HANSEN: I think that that might be the case
23 in some technologies, for example, if you had a fishing lure
24 or something along those lines. It's really not hard to see
25 whether the specification has enabled the patent or not.

1 In these cases of computer source code and
2 higher-end technologies like this, you are going to have
3 questions about enablement and what the patent teaches and
4 doesn't teach. And, again, I think that the federal bench
5 has more experience with advising on and creating jury
6 instructions for what a patent has enabled or has not
7 enabled and therefore disclosed to the public.

8 THE COURT: Thank you. I blanked on the word
9 specification. I was actually asking a slightly different
10 question.

11 MR. HANSEN: Sorry, Your Honor.

12 THE COURT: No. It wasn't clear.

13 So let me give you a real-life example, okay, one
14 that I am familiar with. He's suing you because you stole
15 their slot cell technology. And slot cell technology is
16 essentially how to mold a big plastic taco. Right? And
17 they say that's a trade secret because we use various
18 machines and therefore you are in violation. And you on
19 cross-examination of their expert hold up ten different
20 patents, and in the specification it is talking in there
21 about using, you know, slot cell technology, molding this
22 same plastic using various pieces of machinery. And so it's
23 not a question of does that enable the patent that you are
24 using. It's a it was disclosed in the public; therefore,
25 it's not a trade secret. That would be a defense to trade

1 secret that would clearly involve some aspects of patent,
2 but not really invoke federal jurisdiction, right?

3 MR. HANSEN: I think I follow you, Your Honor.
4 And I certainly appreciate where you have gone there.

5 THE COURT: All right.

6 MR. HANSEN: I think, though, that there is
7 still -- certainly, you could cross-examine in the way you
8 suggest; and if that expert was up there and said, yeah, the
9 patent says exactly that, you know, that would be the line
10 of questioning and it's really not about whether the claims
11 are enabled. So I agree with you on that point. I guess --

12 THE COURT: It would be like *Uroplasty*?

13 MR. HANSEN: Yes.

14 THE COURT: Okay.

15 MR. HANSEN: But I think in terms of what the
16 claim scope is and even in marshaling, you know, standards
17 on, you know, *Daubert*-related motions in patent context,
18 while the concepts are very much the same, there are a lot
19 of nuances to patent law and what is or is not admissible
20 testimony. And, again, there is a lot -- there is a lot of
21 case law on what is enablement and those kinds of things;
22 and I think that if something is enabled, certainly it can
23 no longer be a trade secret.

24 THE COURT: Okay. Thank you. Anything further?

25 MR. HANSEN: No, Your Honor.

1 THE COURT: Okay. Before you stand up,
2 Mr. Hutchinson, Mr. Cassioppi.

3 MR. CASSIOPPI: Nothing from me, Your Honor, other
4 than to echo counsel's comments that we vehemently disagree
5 with the factual recitation that was at the beginning of
6 counsel's statements, but we will save that for a later
7 date.

8 THE COURT: From your perspective, you don't care
9 which court you are in? You just want to be in court?

10 MR. CASSIOPPI: Yeah. Well, we brought a \$100,000
11 breach of promissory note claim. I noted the irony of
12 counsel's statement that it would be burdensome to have this
13 breach of contract action, purported breach of contract
14 action in federal court, when we brought a \$100,000
15 promissory note claim and we are now in World War III, but
16 it is what it is.

17 Thank you, Your Honor.

18 THE COURT: Okay. Thank you.

19 Go ahead, Mr. Hutchinson.

20 MR. HUTCHINSON: Well, I was a little surprised to
21 hear that there is still confusion over, you know, whether
22 we are asserting infringement claims. We are not. At issue
23 in this case is Mr. Renner's two products that they have
24 brought to market. It's the aPhone and the aPay products.
25 Veritec doesn't have any patents related to the phone or the

1 payment process. There's also no copyright for the source
2 code for the mobile payment application.

3 Veritec does have patents, Your Honor, but those
4 are on QC barcode technology, so, you know, the black and
5 white squares. Right now to our knowledge Mr. Renner hasn't
6 entered that market or -- and is not infringing on those
7 patents.

8 But their dec j claims seek to encompass all kinds
9 of patents that have nothing to do with this case. So
10 that's the concern with giving -- a covenant to sue is about
11 the future, and we don't want Mr. Renner with the assistance
12 of Mr. Shimada and Mr. Badhwa in the future to infringe on
13 that barcode technology and patent.

14 So with respect to the aPhone and the aPay, there
15 are no allegations of infringement.

16 THE COURT: Nor could there be, according to you.

17 MR. HUTCHINSON: Nor could there be. So there's
18 no basis for any declaratory judgment based on the products
19 at issue. So there has to be a specific tie to the products
20 at issue and the patents, you know. And that was the issue
21 in *3M versus Avery Dennison*. There were specific patents
22 that they were saying -- that there was a direct link
23 between the products and the patents. We don't have that
24 here. We would give a covenant not to sue based on the
25 aPhone and the aPay not infringing any copyrights or

1 patents.

2 THE COURT: Understood. Thank you. That's very
3 clear.

4 MR. HUTCHINSON: And also your question, Your
5 Honor, about, well, what would happen in the future. What
6 if they did come out with a barcode that did infringe on
7 Veritec's patent for barcodes? Well -- and we are back in
8 state court where we should be? At that point if we added a
9 new claim, they would have an opportunity to remove that new
10 claim. And, obviously, we wouldn't be able to amend in
11 state court unless there was a showing of good cause that
12 didn't prejudice them. The state court would apply the
13 same, you know, the pleading requirements there, but they
14 would have an opportunity to remove that, if we could even
15 add it, but there's nothing here that suggests that at this
16 point.

17 THE COURT: Well, and, frankly, the thing that
18 neither of you have really discussed, and this helps you,
19 but I take issue with your statement, because one of the
20 issues or one of the questions is even if you were allowed
21 to bring that claim and plead it in state court, if you were
22 allowed to amend your complaint, the question that is still
23 open is, even if I baldly did that, do they have a right to
24 remove or is this simply defensive preemption? They have
25 the right to have that claim dismissed? Right?

1 MR. HUTCHINSON: I believe they would, Your Honor.

2 THE COURT: Oh, they would clearly have the right
3 to have that dismissed.

4 MR. HUTCHINSON: Right.

5 THE COURT: I don't think it's -- I mean, it isn't
6 decided as a matter of Eighth Circuit law whether or not
7 they would have a right to have that removed, right?

8 MR. HUTCHINSON: That's correct.

9 THE COURT: Well, that's not exactly correct.
10 They would have a right to have -- that claim gets in
11 federal court, but the question is whether the rest of it
12 carries at that point.

13 MR. HUTCHINSON: Right.

14 THE COURT: Okay. But one last question, now that
15 you have raised the aPhone, aPay. They're in the posture of
16 a third-party defendant. So they are raising a
17 counterclaim, right? And that counterclaim for declaratory
18 judgment doesn't have to be related to the same technology,
19 does it?

20 MR. HUTCHINSON: Yes, it does. They can't bring a
21 counterclaim based on allegations that are not in our
22 complaint, and the counterclaim has to relate to --

23 THE COURT: Well, cross claim maybe I should be
24 saying? No, not a cross claim either?

25 MR. HUTCHINSON: Oh, I think it would be a

1 counterclaim.

2 THE COURT: Okay.

3 MR. HUTCHINSON: But that has to still relate to
4 the issues in dispute. I mean, they can't inject entirely
5 new issues into this case, and they certainly can't do it on
6 a dec j. But, you know, procedurally, Your Honor, there is
7 no operative answer in counterclaims on the docket. So we
8 filed our amended complaint, and they will have -- I don't
9 have the time in front of me, but they have some amount of
10 time to respond to that pleading. We're not currently
11 dealing with a docketed answer and counterclaims.

12 But to the issue then, I mean, we would have the
13 same issue as to whether there's, you know, Article III
14 standing, I mean, whether there's an actual case or
15 controversy over patents for barcodes, wherein there's no --
16 this case has nothing to do with barcodes. So when we try
17 to match up the patents that are at issue in their dec,
18 their dec j claims, there's no dispute. We have not even
19 had any conversation with them. There's no reference to any
20 of that in our initial complaint or in our amended
21 complaint.

22 THE COURT: Okay. Thank you, Mr. Hutchinson.

23 Go ahead.

24 MR. HANSEN: Your Honor, I'll be brief. The
25 counterclaims certainly could include anything. They just

1 wouldn't be a compulsory counterclaim. It would be a
2 permissive counterclaim.

3 THE COURT: All right. That's what I am looking
4 at. That's why I wanted to know that.

5 MR. HANSEN: But I think the other idea is, you
6 know, Veritec's suggestion that some of these patents are
7 coming out of left field, they are not. It's paragraph 45
8 of the verified complaint. Those are the patents that we're
9 issuing the dec action on. So those are the patents that
10 they put in their verified complaint and then later said we
11 utilized as part of this technology. So it's not like we
12 are making things up out of whole cloth here. It came from
13 their complaint.

14 Thank you, Your Honor.

15 THE COURT: Thank you.

16 I'll give you the last word if you need it,
17 Mr. Hutchinson.

18 MR. HUTCHINSON: Nothing further, Your Honor.

19 THE COURT: Okay. All right. Thank you.

20 I'll just tell you in advance it's going to take a
21 while to get this order out. I think this is a very, for me
22 at least, it's a very complicated issue and I want to get it
23 right, so it will be a while. All right?

24 Thank you, everyone. Court's in recess.

25 THE CLERK: All rise.

1 (Court adjourned at 4:11 p.m., 09-10-2018.)

2 * * *

3 I, Renee A. Rogge, certify that the foregoing is a
4 correct transcript from the record of proceedings in the
5 above-entitled matter.

6 Certified by: /s/Renee A. Rogge
7 Renee A. Rogge, RMR-CRR
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RENEE A. ROGGE, RMR-CRR
(612) 664-5107